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SUBJECT: GOA ECONOMY MINISTER ON "BUY AMERICA," DEBT SWAPS,
PENSIONS NATIONALIZATION, AND EXIMBANK TOLLING AGREEMENT

Classified By: Ambassador E. Anthony Wayne for Reasons 1.4 (b,d)

Summary

¶1. (C) Argentine Economy Minister Carlos Fernandez noted GoA concerns with the "buy America" provisions in pending U.S. economic stimulus legislation during a February 4 meeting with Ambassador that mostly focused on G-20 issues (septel). The Minister highlighted the GoA's recent successful debt swap, which will open to foreign bondholders soon, but downplayed chances of a deal soon with "holdouts." The Ambassador called for fair treatment of U.S. companies that had investments expropriated when the GoA nationalized the private pension funds in December, particularly with regards to compensation. Ambassador also urged Fernandez to engage directly in completing a tolling agreement with ExImBank. Fernandez said he would soon respond to a Financial Action Task Force (FATF) letter raising concerns about the GoA's new capital repatriation law. He noted that the GoA published implementing regulations of that law February 2, which he claimed eliminated the potential for abuse of the law for purposes of laundering money. End Summary.

¶2. (C) The Minister and Ambassador focused on the GoA's participation in ongoing and upcoming G-20 meetings (reported septel). This cable describes their discussion of bilateral issues.

Argentine Concerns Re "Buy America" Provisions

¶3. (C) Reflecting concerns raised in local media, Minister Fernandez asked the Ambassador for details about the "buy America" provision included in the stimulus package pending in the U.S. Congress. The Ambassador noted that the legislation was still being debated in the Congress, and the end result would be a matter of negotiation in Congress and with the administration. He highlighted President Obama's February 3 statements on the need to avoid creating problems with our trading partners, and also pointed out that many U.S. companies, in addition to our trading partners, had expressed concern about the provision as originally drafted. (Comment: While the meeting received prominent and positive press play, articles highlighted the Ambassador and Minister's discussion of this issue, portraying the exchange as a GoA reclama on the issue, even though Fernandez was very restrained in his comments. There are serious local concerns that the provision could disadvantage Argentine steel exports to the United States.)

Debt Issues: Local Debt Swap and Plans for Holdouts

¶4. (C) The Ambassador congratulated the Minister on achieving a 97% acceptance rate in the GoA's recent debt exchange of locally-held Guaranteed Loans ("Prestamos Garantizados"), which according to press reports will result in lowering the GoA's financing needs in 2009 by over US\$1.5 billion. Fernandez said the successful swap sent an important signal to the market that the GoA "still has sufficient resources to pay its debts, despite everything going on in the world." He said the GoA would keep the exchange open for a few more days to allow the last few domestic holders of these bonds to participate, and planned soon to open the exchange to foreign holders. He noted that the GoA would provide the same offer during the foreign tranche of the swap, or maybe even slightly worse, but expected heavy participation because "everybody wants to exchange the illiquid Guaranteed Loans for more liquid bonds." (This issue reported in more detail septel.)

¶5. (C) Fernandez took the opportunity to bash rating agencies, which currently have "worse ratings for Argentina than in 2001," before Argentina's default and devaluation. He accused these entities of failing to anticipate both Argentina's 2001 crisis and the ongoing international crisis, and argued it made no sense for Argentina to be considered so much riskier than other countries in the region after six years of strong fiscal and trade surpluses. He suspected the ratings were based more on politics than technical reasons.

¶6. (C) The Ambassador commented that the perception that Argentina is a riskier market in large part derives from the GoA's outstanding debt situation with both Paris Club

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creditors and holdouts. Fernandez responded that the political will is still there, and the GoA sees these as priority issues that must be resolved as soon as feasible. However, he contradicted press and private sector speculation that the GoA will soon attempt to restructure untendered defaulted bonds (the so-called "holdouts"), arguing that "international conditions must first return to normal."

Argentine Nationalization of Pension Funds

¶7. (C) The Ambassador highlighted Washington interest in the GoA's nationalization of the private pension funds in December, as well as USG concern about GoA treatment of the two U.S. companies (MetLife and NYLife) that had their assets expropriated. The Ambassador called for the GoA to ensure that their interests and those of their employees and shareholders were appropriately protected. Fernandez reassured Ambassador that the GoA was also concerned about the thousands of employees that worked for the 10 private pension funds, and was looking to employ as many as possible at the Argentine Social Security Agency (ANSES, which took possession of the private funds' assets in mid-December). Fernandez also assured that the GoA would be reasonable and prudent with regards to the question of compensation, and its actions would accord with Argentine laws. (Comment: Fernandez likely has little say over this issue in the cabinet, but Post is delivering a similar message during all contacts with appropriate GoA officials.)

ExImBank Tolling Agreement

¶8. (SBU) The Ambassador explained that ExIm has renewed its effort to sign a tolling agreement with the GoA, and asked for the Minister to engage directly in completing the documents and then sending the agreement and decree to the President for signature. Although Fernandez seemed unfamiliar with the issue, after hearing explanations by

EconOff of how this agreement would benefit both Argentina and ExIm, and would protect both of their legal rights, Fernandez agreed to follow-up personally with his staff in the Secretariat of Finance, who are handling the issue.

¶9. (SBU) Background: the purpose of this agreement is to extend the statute of limitations on ExIm's non-performing loans to the GoA. Economy Ministry staff, ExIm officials, and the GoA's legal counsel, Cleary Gottlieb, completed a draft agreement in August 2008, and EconMin staff were on the verge of sending it to the Minister for approval. However, both sides agreed informally to delay the process after President Cristina Fernandez de Kirchner (CFK) announced September 2, 2008, that the GoA would pay all Paris Club debts -- including the roughly \$425 million owed to EXIM and other USG agencies -- in one lump sum. However, given that the GoA never followed through on the promise, and the deterioration in international and domestic financial markets makes any Paris Club payment soon unlikely, ExIm and Finance Secretariat staff agreed to resume the effort.

Argentine Capital Repatriation Law

¶10. (C) In response to the Ambassador's question, Fernandez noted that the GoA issued implementing regulations on February 2 covering its recent and controversial law on capital repatriation passed by the Argentine Congress last December. He argued that these regulations preclude any possible abuse of the law for the purpose of laundering money -- especially funds deriving from illicit means. Now that the GoA has completed all legislative and regulatory documentation, Fernandez said he would finally respond to FATF's December 8 letter to him, which expressed concern about the potential risks of passing such a law and asked for details.

¶11. (C) Comment: the implementing regulations require that financial transfers originate in countries that meet international money laundering/terrorism finance standards, and also require the local financial institutions receiving the funds to comply with all relevant Central Bank and Financial Investigative Unit rules and regulations. GoA and Central Bank officials say that these restrictions are sufficient to eliminate the potential for money laundering, but Post's private sector contacts warn that there is still

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significant room for abuse, particularly with regards to movements of cash. (Reported in more detail septel.)

Publication of Investment Climate Statement

¶12. (C) As a pull aside, the Ambassador informed Fernandez that the USG would soon publish the latest versions of the Investment Climate Statement and Country Commercial Guide. The Ambassador emphasized that these are balanced technical evaluations of Argentina's investment and business climate, but warned that the press has used these reports in the past to stir up conflict between our two countries. Fernandez reassured the Ambassador that GoA officials are fully familiar with the Argentine press' penchant for hyperbole.

Comment

¶13. (C) This was the Ambassador's first formal meeting with Minister Fernandez since July 2008, when they met during the visit of WHA A/S Shannon and Treasury DAS O'Neill on the margins of the bilateral consultations, though they have talked by telephone and at events in between. This compares to the almost monthly meetings the Ambassador enjoyed with

Fernandez's three predecessors, and is an indication of this Minister's low profile and diminished role in the CFK administration. Never a power player in the cabinet, his role was even further reduced when CFK split his Ministry into two (Economy and Production) in late November. Whereas before he had -- at least in theory -- a say in issues related to industry, trade, and agriculture, Fernandez is now the Minister in charge of only finance and the budget. While Fernandez comes across as forthright and honest, and has a good reputation as a competent technocrat, especially on budget-related issues, his influence is limited. There is little doubt that the real decisions on the economy are being made in the Casa Rosada and presidential residence Los Olivos, the lair of presidential spouse Nestor Kirchner. End Comment.

WAYNE